

VZCZCXR07357
OO RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHGO #1803/01 3520650
ZNY CCCCC ZZH
O 180650Z DEC 06
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5514
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1266
RUEHBY/AMEMBASSY CANBERRA 0070
RUEHKA/AMEMBASSY DHAKA 4413
RUEHLO/AMEMBASSY LONDON 1882
RUEHNE/AMEMBASSY NEW DELHI 3662
RUEHUL/AMEMBASSY SEOUL 7168
RUEHTC/AMEMBASSY THE HAGUE 0569
RUEHKO/AMEMBASSY TOKYO 4754
RUEHCI/AMCONSUL CALCUTTA 0993
RUEHCN/AMCONSUL CHENGDU 0996
RUDKIA/AMCONSUL CHIANG MAI 0765
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 2972
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0635
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 001803

SIPDIS

SIPDIS

STATE FOR EAP/MLS; PACOM FOR FPA, TREASURY FOR OASIA:AJEWELL

E.O. 12958: DECL: 09/21/2016

TAGS: ECON PGOV BM

SUBJECT: BURMA'S BUSINESS ENVIRONEMNT: "BETTER THAN
TOMORROW"

REF: A. RANGOON 1466

1B. RANGOON 982

RANGOON 00001803 001.2 OF 003

Classified By: Econoff TLMarlowe for Reason 1.4 (b,d)

11. (SBU) Summary: The GOB's economic mismanagement continues to erode Burma's business environment. The regime makes unreasonable and arbitrary decisions with little thought of the economic consequences. For example, all business transactions must be conducted in the remote new capital of Nay Pyi Taw; the GOB appointed new Customs recruits with minimal training; and has added new layers of bureaucracy. Two veteran businessmen recently discussed with us Burma's worsening economic climate, including the crackdown on Customs officials, the move to Nay Pyi Taw, corruption, and the business slowdown. End summary.

Customs Crackdown

12. (C) Econoff recently sat with veteran Burmese businessmen Maung Aye and Kyaw Tin in separate meetings to discuss Burma's business environment. Both businessmen agreed that the ongoing investigation of Customs officials (reftels) has caused a significant decline in the level of business activity, as many traders have halted their import/export business and some have fled to China with their families to avoid arrest. Many Customs officials have also gone into hiding. Contacts tell us that nervous new Customs recruits at Thai and China border checkpoints disallow even minor discrepancies in truck cargo weights. Previously, an additional "payment" smoothed the way for overweight shipments. Now, according to Maung Aye, new Customs officials, most of whom come from military ranks, are overcautious and refuse to take any chances that could make them the next victims of the purge. Since most of the four

hundred new recruits do not know their jobs and do not accept bribes, they just do nothing, according to Kyaw Tin. He noted that the few experienced customs officers who remain still demand bribes, but now require traders to meet them outside of the workplace to make the payments.

¶3. (C) The GOB has arrested over one hundred sixty Customs officials so far, and has handed down prison sentences ranging from seven to sixty-six years. There would have been more arrestees, said Maung Aye, but a group of about one hundred Customs officials, who had been told they were being picked up for a meeting, overheard their government-provided drivers receive instructions to drive to Insein, site of Burma's most notorious prison. All but seven escaped from their transport vans and went into hiding.

¶4. (C) Maung Aye predicted that the regime would extend corruption investigations to other government departments. He cited the recent example of the forced retirements of the head of the National Defense College and his deputy, who were accused of taking USD 3,000 bribes to provide admission and test results important to officers' promotions. Maung Aye speculated that, since the economy cannot support a large army, the current corruption investigations may also help the regime clear out older officers to make space for more junior officers to move up. He also felt that the regime wants to present a less corrupt image after ranking next to the bottom in Transparency International's latest global survey. Maung Aye added that corruption investigations still have their limits. When General Thura Shwe Mann recently gave an anti-corruption speech and said "No one is above the law," Burmese jokingly changed it to read, "No. 1 (i.e., Than Shwe) is above the law."

"Better Than Yesterday, Better Than Tomorrow"

RANGOON 00001803 002.2 OF 003

¶5. (C) Maung Aye said that many of his business associates characterize the current situation as "better than yesterday, but also better than tomorrow." They have no reason to be optimistic about the future, he said, because the regime does not know how to manage the economy. Kyaw Tin agreed, stating that businesspersons are so frustrated at the GOB's illogical economic interventions that they proposed contributing to a fund to send Defense College graduates to Singapore to learn how a proper economy should run. No one can influence the top two leaders, he said, so they need to focus on upcoming military officers instead.

¶6. (SBU) Every time companies adapt to a new obstacle, the regime throws additional roadblocks at them. For example, a new rule requires firms to travel to Nay Pyi Taw to pay all government fees, no matter how small. Since airline flights to the new capital are often fully booked and road or rail transportation requires a grueling eight or nine hour journey, many businesspeople must overnight in the new administrative capital on each visit. With no official business now conducted in Rangoon, Kyaw Tin told us how he must travel to Nay Pyi Taw to pay a 75 Kyat fee (less than 6 cents). Since no banks have opened in Nay Pyi Taw, the trip is doubly inconvenient. Kyaw Tin must first travel to Nay Pyi Taw to collect the appropriate government form, then to the nearby town of Pyinmana to pay the fee and collect the receipt from the bank, then back to Nay Pyi Taw to submit his receipt to the appropriate ministry, then back to the bank to submit the government form. GOB promises of branch government offices in Rangoon and better internet connections to facilitate business have not materialized.

¶7. (C) Kyaw Tin also relayed how the GOB has begun to require foreign companies to renew their incorporation papers annually, which formerly were valid for the life of the firm. The GOB has also taken away the license to trade from some foreign firms, insisting that they re-register as non-trading firms. Some have complied, while others continue to do

business using the old licenses. When asked why the GOB does not shut those firms down, Kyaw Tin told us that, according to an official he knows well, the regime is worried that they would then withdraw their capital investment, an estimated \$60 million.

¶8. (C) Both Maung Aye and Kyaw Tin said that, though construction of Nay Pyi Taw continues, many firms involved in its construction cannot receive cash payments from the regime, only promises of export licenses and property assets in Rangoon. Te Za, close to Than Shwe and a major arms dealer, reportedly received the right to develop Rangoon property now held by the Ministry of Industry (1), while Chit Khine of Eden Construction and Tun Myint Naing of Asia World were offered other former ministry buildings in lieu of payment for their construction work in Nay Pyi Taw. As a result, they do not have the cash to pay their suppliers.

¶9. (C) Bio Notes: Maung Aye is Managing Director of Aye International Inc., and during the Ne Win era was called the "King of Timber" because of his success representing foreign timber firms and selling Burmese wood abroad. He was arrested by Ne Win in 1980 for violations of socialist economic laws, and spent six years in Insein prison. His current company stays away from timber, leasing heavy equipment to the shipping and construction industries. Maung Aye is a retired army captain and received a year of military training in the U.S., which he remembers fondly. He has little tolerance for the regime's policies. He tells of routinely standing up to petty extortion attempts by local officials in Rangoon, and described to us how he refused to

RANGOON 00001803 003.2 OF 003

repaint the roof of his house in Pyin Oo Lwin green when officials demanded it before a visit by Maung Aye earlier this year. He enjoys enough wealth and respect that authorities do not harass him, but he would welcome any change leading to a more open, free economy.

¶10. (C) Kyaw Tin is an economist and Managing Director of SGS, the international certification and inspection company. His employment with an international firm has exposed him to global economic issues and revealed the weakness of Burma's current economy. He, too, would welcome a more open economy, integrated with the world and following international standards.

¶11. (C) Comment: Burmese business owners deal with the vagaries of GOB's interventions with wry humor and experienced resignation. "When the devil plays a tune," they say, "we must dance to it." Nevertheless, the business environment continues to deteriorate. The customs crackdown has more to do with trying to capture greater tariff revenue to offset the growing budget deficit. None of the people charged have been the wealthy cronies, who keep the generals' personal pockets well-filled. The crucial question is whether the cronies' cash flow problems are temporary, or whether they may have to reduce their generous personal subsidies to the generals. End comment.

VILLAROSA